

Message Text

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ACTION SP-02

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02
OPIC-03 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-06
CEA-01 DODE-00 CU-04 AGRE-00 IO-13 HEW-04 /101 W
-----027268 170637Z /20
R 170519Z JAN 78
FM AMEMBASSY SEOUL
TO SECSTATE WASHDC 8734

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E.O. 11652: N/A
TAGS: ECON, IN, ID, PK, RP, KS, BG, GR, BL, GT, TZ, ET, CM, EAID
SUBJ: ASSESSMENT OF EFFECTIVENESS OF ECONOMIC ASSISTANCE

REF: A) STATE 306061, B) STATE 306064, C) STATE 306062,
D) SEOUL 10833

FOLLOWING IS MISSION'S BRIEF HISTORICAL OVERVIEW AND ASSES-
MENT OF THE EFFECTIVENESS OF ECONOMIC ASSISTANCE TO KOREA.
SPECIFIC MATERIAL ON PROJECTS REQUESTED PARA FOUR, REFTEL
(B), FOLLOWS SEPTTEL:

1. IN ATTEMPTING TO IDENTIFY THE REASONS FOR KOREA'S DE-
VELOPMENT SUCCESS, WE HAVE BEEN FORCED TO LOOK TO MACRO-
ECONOMIC FACTORS AND POLICIES, AND BEYOND TO CULTURAL CHARAC-
TERISTICS, MORE THAN THE QUALITY OF INDIVIDUAL PROJECTS OR
THE RANGE OF OTHER FACTORS RAISED IN REFTELS. SUCH WAS
NOT ONLY OUR CONCLUSION, BUT ALSO THAT OF THE SEVERAL IN-
FORMED KOREANS WHOM WE HAD TIME TO CONSULT.

2. PERHAPS THE MOST IMPORTANT MACROECONOMIC FACTOR HAS
BEEN THE DEDICATION OF THE ROKG TO A GIVEN TARGET ROLE OF
REAL GROWTH WHICH IT HAS PURSUED WITH UNSWERVING DILIGENCE.
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THAT AND THE OTHER INTERMEDIATE TARGETS SELECTED HAVE BEEN
AMBITIOUS BUT NOT UNATTAINABLE. THUS, ON THE ONE HAND THEY
HAVE BEEN DIFFICULT ENOUGH TO ACHIEVE TO ELICIT A HIGH LEVEL
OF PERFORMANCE. ON THE OTHER, BEING FEASIBLE, THEY HAVE
BEEN FOR THE MOST PART MET.

3. THE DEDICATION OF THE ROKG TO ITS DEVELOPMENT GOALS HAS

BEEN ACHIEVED IN PART BY A COMPLEX PLANNING AND MONITORING SYSTEM THAT DISCIPLINES THE BUREAUCRACY AND THE PRIVATE SECTOR. EVERYONE KNOWS WHEN PERFORMANCE IS WANTING AND THAT THERE ARE SANCTIONS (E.G., PUBLIC RIDICULE, LOSS OF ACCESS TO BANK LOANS, SUGGESTED CHANGES IN COMPANY OFFICIALS, ETC.). MOREOVER, THE ROKG IS IN A POSITION TO MAKE NECESSARY POLICY CHANGES WITHOUT PROLONGED DEBATE ON WHAT IS APPROPRIATE.

4. ANOTHER ELEMENT, PARTICULARLY IMPORTANT IN THE EARLY DAYS BEFORE DOMESTIC SAVING WAS SUFFICIENT FOR SELF-SUSTAINING GROWTH, WAS A VERY LARGE FLOW OF EXTERNAL RESOURCES. TOGETHER WITH DOMESTIC SAVINGS, THEY PRODUCED AN UNUSUALLY HIGH RATE OF INVESTMENT AND GROWTH. THIS ELEMENT CANNOT BE SUFFICIENTLY EMPHASIZED, BECAUSE FEW COUNTRIES HAVE BEEN SO FORTUNATE TO RECEIVE SUCH A FLOW FROM EITHER A SINGLE COUNTRY (THE US) OR FROM SEVERAL COUNTRIES AND/OR INTERNATIONAL FINANCIAL INSTITUTIONS.

5. THE DEVELOPMENT STRATEGY FOLLOWED BY THE ROKG BY AND LARGE FOLLOWED THE CONVENTIONAL FREE MARKET CAPITALISTIC PRESCRIPTION. LACKING DOMESTIC NATURAL RESOURCES, KOREA HAD NO CHOICE BUT TO FOLLOW AN EXPORT-LED STRATEGY. ITS POLICIES ON THE EXCHANGE RATE, INTEREST RATE, AND IMPORT RESTRICTIONS HAVE BEEN DESIGNED TO FOSTER GROWTH AND RESTRAIN CONSUMPTION.

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6. ONE KOREAN SOURCE OBSERVED THAT THE ROKG FOLLOWED "PROFESSIONAL" ECONOMIC POLICIES, DESPITE THE FACT THAT MOST OF THE MINISTERS AND CIVIL SERVANTS WERE BUREAUCRATS, WITHOUT ECONOMIC TRAINING. HE ATTRIBUTED THIS OUTCOME TO US INFLUENCE, WHICH AT TIMES WAS PLAIN HEGEMONY, BASED ON KOREA'S DEPENDENCE ON BOTH US ECONOMIC AND MILITARY ASSISTANCE. THIS RELATIONSHIP (YOU MAY PICK ANY POLICY YOU WANT SO LONG AS IT IS GOOD) WAS INSTITUTIONALIZED IN THE COMBINED ECONOMIC BOARD, WHICH APPROVED BOTH THE GOVERNMENT BUDGET AND THE FOREIGN EXCHANGE BUDGET; IN PRACTICE, THE US HAD A VETO OVER BOTH; AND OFFICIALS IN THE ECONOMIC MINISTRIES SPENT MUCH OF THEIR TIME JUSTIFYING DECISIONS AND PROJECTS TO THE AMERICAN SIDE -- IN EFFECT ESTABLISHING A PROFESSIONAL REVIEW OF ACTIVITIES THAT LIMITED THE NUMBER OF EGREGIOUS ERRORS.

7. THE IMPACT OF US ECONOMIC ASSISTANCE SINCE 1945 HAS BEEN FELT IN SEVERAL SECTORS OF THE KOREAN ECONOMY, ALTHOUGH AID BECAME A LESSER FACTOR IN THE DEVELOPMENT OF THE COUNTRY IN THE 1960'S IN BOTH ABSOLUTE AND RELATIVE TERMS AS PRIVATE CAPITAL INFLOWS INCREASED. TO BE SURE, US ASSISTANCE CONTINUED TO BE AN IMPORTANT FACTOR AND REMAINED

THE PRIMARY SOURCE OF OUTSIDE ASSISTANCE IN THE EARLY 1960'S. BUT THE NATURE OF THIS ASSISTANCE WAS GRADUALLY CHANGING FROM THE NON-PROJECT TYPE TO INCREASED RELIANCE ON PL 480 AND FINALLY, DEVELOPMENT LOANS, BY 1965. THESE CHANGES REFLECTED THE INCREASING MATURITY OF THE KOREAN ECONOMY DURING AND AFTER THE 1961-65 PERIOD.

8. AS THE KOREAN ECONOMY BECAME MORE SOPHISTICATED, SO TOO COULD THE US ECONOMIC ASSISTANCE PROGRAM. AID CONTINUED TO FOLLOW A BROAD STRATEGY OF SUPPORTING ECONOMIC DEVELOPMENT IN SEVERAL AREAS WITH A FOCUS ON INDUSTRY, MANUFACTURING AND AGRICULTURE. IN LATER YEARS, THIS FOCUS SHIFTED SOMEWHAT WITH INCREASED EMPHASIS ON EDUCATION, HEALTH AND POPULATION, AND AGRICULTURAL RESEARCH.
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9. INFLUENCE ON KOREA BY OTHER COUNTRIES OR AGENCIES CAME LATE, WITH THE JAPANESE ENTERING THE FIELD IN 1965 AND THE MULTILATERAL AGENCIES (IBRD, IDA AND ADB) IN 1968.

10 CURIOUSLY, MANY IN THE SMALL GROUP OF PROFESSIONAL ECONOMISTS IN GOVERNMENT FROM THE EARLY DAYS LOOK BACK TODAY WITH HORROR AT THE MULTITUDE OF ECONOMIC "ERRORS" PERPETRATED BY THE ROKG. THEY CONCLUDE THAT A SUFFICIENTLY RAPID RATE OF GROWTH SWAMPS MOST INDIVIDUAL ERRORS, SO THAT KOREA'S INCREMENTAL CAPITAL-OUTPUT RATIOS HAVE BEEN ASTONISHINGLY

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OPIC-03 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-06
CEA-01 DODE-00 CU-04 AGRE-00 IO-13 HEW-04 /101 W
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LOW. A PARTICULAR EXAMPLE OF THIS EFFECT CAN BE SEEN IN THE CONSTRUCTION OF MANY UNECONOMIC INDUSTRIAL FACTORIES; HOWEVER, WITH THEIR PRODUCTS DESTINED FOR EXPORT, SO THAT THE SIZE OF THE DOMESTIC MARKET DID NOT LIMIT THEIR OPERATION, THE CAPITAL PLANT WAS RUN ROUND-THE-CLOCK AND PER UNIT OVERHEAD COSTS BECAME HIGHLY COMPETITIVE.

11. KOREAN GROWTH MUST ALSO BE ACCOUNTED FOR BY THE UNIVERSAL DEVOTION TO THAT GOAL UP AND DOWN THE LINE. MANY FACTORS ENTER INTO IT, INCLUDING THE OBVIOUS PATRIOTISM, FEAR OF THE NORTH, HIGHLY COMPETITIVE AVERAGE INDIVIDUAL PERSONALITY IN EDUCATED AND LITERATE POPULACE, AND NATIONAL MEMORIES OF WAR AND POVERTY. INTERESTINGLY, FEW OF THESE FACTORS ARE FOUND IN MANY OTHER DEVELOPING COUNTRIES.

12. ROKG DEDICATION TO MAINTAINING EQUITY DURING THE DEVELOPMENT PROCESS HAS OBVIOUS POLITICAL PAYOFF FOR THE PARK REGIME, BUT SO IT WOULD HAVE HAD IN OTHER COUNTRIES WHERE IT IS LARGELY OBSERVED IN THE BREECH. HENCE, WE CONCLUDE THAT EGALITARIAN VALUES ARE PARTICULARLY STRONG IN THE KOREAN NATIONAL CHARACTER. IN ANY CASE, WIDESPREAD PARTICIPATION IN THE FRUITS HAS SERVED TO MAINTAIN STRONG PUBLIC ALLEGIANCE TO THE DEVELOPMENT GOAL. THE SUCCESS OF THE POLICY HAS BEEN

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ATTESTED BY THE WORLD BANK, BASED ON INCOME DISTRIBUTION STUDIES, DATA ON DIFFERENT MEASURES OF WELFARE AND ON THE EVIDENT GROWING PROSPERITY OF THE AVERAGE MAN. THE EQUITY GOAL HAS BEEN PURSUED BY A VARIETY OF POLICIES. INITIALLY, THE ROKG SOUGHT TO INCREASE URBAN EMPLOYMENT, AS BEING THE ONLY PLACE ABLE TO PROVIDE ADDITIONAL JOBS FOR THE ROK'S NUMEROUS RURAL UNEMPLOYED. SUBSEQUENTLY, WHEN THE FLOW OF POPULATION FROM THE RURAL SECTOR WAS MOVING RAPIDLY, BUT AVERAGE RURAL INCOMES WERE FALLING BEHIND THE URBAN, THE ROKG REDRESSED THE BALANCE BY INVESTING LARGE SUMS IN RURAL INFRASTRUCTURE (E.G., ROADS TO MOST VILLAGES, ELECTRICITY TO 93 PERCENT OF RURAL HOUSEHOLDS) AND IN RAISING AGRICULTURAL OUTPUT (FOR EXAMPLE, VERY RAPID GROWTH IN RICE OUTPUT ACHIEVED SELF-SUFFICIENCY AND THE WORLD'S HIGHEST YIELD IN 1977). BY PUTTING THE EMPHASIS ON EMPLOYMENT, RAHTER THAN INCOME TRANSFERS ON PURE WELFARE MEASURES (THOUGH THESE ARE NOW COMING), THAT EQUITY GOAL REINFORCED MARKET FORCES WHICH HAVE MAXIMIZED GROWTH. AT THE SAME TIME, WHILE A MINIMUM WAGE HAS NOT BEEN LEGISLATED, THE ROKG HAS JAWBONED THE LARGER FIRMS IN THE LAST TWO YEARS TO PAY ONE IF THEY COULD NOT PROVE IT WOULD MAKE THEM UNCOMPETITIVE -- AND MOST HAVE GONE ALONG. WORKING CONDITIONS HAVE OFTEN

BEEN (AND STILL ARE) BAD, BUT EQUITABLE AND FAR BETTER THAN WHAT WOULD HAVE BEEN AVAILABLE TO THE DISADVANTAGED IN A LESS EGALITARIAN SYSTEM. THE OFFICE OF LABOR AFFAIRS WHICH HAS THE POWER TO CLOSE FIRMS HAS FOUND ITS POWERS SUFFICIENT TO FORCE IMPROVEMENT IN EGREGIOUS CONDITIONS. TRADE UNIONS ARE NOT ENCOURAGED AND ARE NOT ALLOWED TO STRIKE, BUT HAVE NEVERTHELESS GROWN AND IMPROVED WAGES AND WORKING CONDITIONS. EQUITY IS ALSO EVIDENT IN THE GOVERNMENT'S REBUILDING A SEOUL THAT HAD BEEN SHELLED TO RUBBLE IN 1950 AND IN HANDLING THE FLOOD OF URBAN IMMIGRANTS WHO HAD TO BE HOUSED, EDUCATED, AND OTHERWISE SERVED IN THE MAJOR POPU- LIMITED OFFICIAL USE

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LATION CENTERS. RECENT RETURNING VISITORS REMARK ON THE ABSENCE OF THE PAPER-SHACK SLUMS THEY REMEMBER, EVEN AS THE FIRST-TIME VISITOR NOTES THAT THE HOUSING PROBLEM IS SEVERE. THE BOTTOM LINE ON EQUITY IS THAT VIRTUALLY NO KOREAN HAS NOT BENEFITTED AND MOST KOREANS KNOW THEY ARE BETTER OFF TODAY THAN EVER BEFORE AND EXPECT TO BE MORE SO IN THE FUTURE.

13. ROKG EQUITY GOALS HAVE BEEN MADE EASIER TO ATTAIN IN PART BECAUSE NEARLY EVERYONE STARTED EQUALLY, I.E., ALMOST UNIVERSAL POVERTY RESULTING FROM THE KOREAN WAR, WHICH WIPED OUT MOST FIXED ASSETS, BY THE POST-WORLD WAR II LAND REFORMS, AND BY THE JAPANESE OCCUPATION WHICH KEPT EDUCATION AND ACCESS TO SUPERIOR POSITION FOR THE MASTER RACE.

14. THE VALUE PLACED BY ALL KOREANS ON EDUCATION IS SO HIGH AS TO BE REMARKED UPON BY MOST OBSERVERS: IT HAS, IN ANY CASE, MOBILIZED FAMILY SAVINGS FOR INVESTMENT IN THE HUMAN RESOURCE TO A DEGREE WHICH SEEMS UNIQUE IN THE WORLD. AS A RESULT, KOREANS ARE ALSO UNUSUALLY MOBILE GEOGRAPHICALLY AND OCCUPATIONALLY.

15. ALTHOUGH NOT NORMALLY CONSIDERED A MACROECONOMIC POLICY, POPULATION PLANNING HAS BEEN HIGHLY IMPORTANT TO KOREA'S ACHIEVING ITS WELFARE AND GROWTH GOALS. IT HAS BEEN PURSUED WITH THE SAME DEDICATION AND ITS SUCCESS IS EVIDENT IN THE NUMBERS:

	1961	1976
POPULATION INCREASE - PERCENT	2.97	1.64
DEATH RATE - PERCENT	1.30	.66
BIRTH RATE - PERCENT	4.30	2.43

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE
Control Number: n/a
Copy: SINGLE
Draft Date: 17 jan 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978SEOUL00377
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780024-0338
Format: TEL
From: SEOUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780155/aaaabtyf.tel
Line Count: 274
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 46cacfe2-c288-dd11-92da-001cc4696bcc
Office: ACTION SP
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 STATE 306061, 78 STATE 306064, 78 STATE 306062
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3762135
Secure: OPEN
Status: NATIVE
Subject: ASSESSMENT OF EFFECTIVENESS OF ECONOMIC ASSISTANCE
TAGS: ECON, EAID, IN, ID, PK, RP, KS, BG, GR, BL, GT, TZ, ET, CM
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/46cacfe2-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014